IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

GOLD ANTI-TRUST ACTION COMMITTEE, INC.,	)	
Plaintiff,	)	
v.	)	Civil Action No. 09-2436 (ESH)
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM,	)	
Defendant.	)	

DECLARATION OF JAMES TURK

1. My name is James Turk. I am the publisher and editor of the Free Gold Money Report ("FGMR") (www.fgmr.com). I also am the founder and chairman of GoldMoney (www.goldmoney.com), which provides a convenient and economical way to buy and sell gold, silver, and platinum online, using the digital gold currency for which I was awarded four U.S. patents. I have specialized in international banking, finance, and investments since graduating in 1969 from George Washington University with a B.A. degree in International Economics. I began my business career with The Chase Manhattan Bank (now J.P. Morgan Chase), which included assignments in Thailand, the Philippines, and Hong Kong. In 1980, I joined the private investment and trading company of a prominent precious metals trader. I moved to the United Arab Emirates in December 1983 to be appointed manager of the Commodity Department of the Abu Dhabi Investment Authority, a position I held until resigning in 1987 to begin FGMR. I have written several monographs on money and banking and was the co-author of "The Coming Collapse of the Dollar" (Doubleday, 2004) (www.dollarcollapse.com). I serve as a consultant to GATA, the plaintiff in this action against the Federal Reserve Board ("FRB").

2. I am writing to explain **gold swaps**, as that term is used internationally with respect to gold bullion transactions. Gold swaps are generally entered into between central banks or government treasuries. "Gold swaps" involve a swap, or exchange, of gold for either other gold or currency, with a promise to unwind the transaction at a later time. Gold swaps are sometimes thought of as leases or loans of gold for a period of time, allowing one receiving party the right to use that gold and the other receiving party the right to use what it received in the swap. It is possible that the right to unwind the transaction could be limited to a fixed period of time, and if not unwound the swap would become the equivalent of a sale. It is also possible that physical possession of the gold not be transferred during the period of the swap.

3. A **swap of gold for currency** would appear to create reporting problems based on current central bank practices that allow one asset to be owned by two central banks, a deceptive double-counting that defies Generally Accepted Accounting Principles. For example, the central bank acquiring interest in and often possession of gold through a swap may be found reporting that gold as if it were its own, while the central bank giving up the interest in and often possession of the gold subject to the swap may be found continuing to report the gold as if it were unencumbered and stored in its vault. In my experience, the public is never informed of the details of gold swaps.

4. A **swap of gold for gold** might seem to be without purpose, but the purpose could involve a desire to hide a transaction from public view. In other words, the gold that is subject to a swap may not be fully owned by or in the possession of the central bank or Treasury, but may continue to be reported as if it were fully owned by the agency in question.

5. An illustration of the reporting problems can be seen on the September 20, 2010, U.S. Department of Treasury weekly press release entitled "**U.S. International Reserve Position**," which presents the nation's "Official reserve assets,"[1] including a line labeled: "gold (including gold deposits and, if appropriate, gold swapped)." The footnote to this line states: "Gold stock is valued monthly at $42.2222 per fine troy ounce."[2] The U.S. Treasury Department therefore combines into one line: (i) gold, (ii) gold deposits, and (iii) gold swaps. These terms are not defined, and neither is the term "gold stock" in the footnote of the report, but gold stored safely in a Treasury vault like the one located at Ft. Knox, Kentucky is fundamentally different by logic and Generally Accepted Accounting Principles from gold loaned, swapped, leased, or deposited because gold transacted in these ways is no longer in the Treasury's possession, or fully owned by the Treasury. This aggregate form of reporting gives the public no understanding as to how much of the nation's gold is the subject of secret gold swaps with foreign central banks.

6. Some interesting recent history illustrates certain aspects of gold swaps. On July 7, 2010, it was reported by the Wall Street Journal that footnotes in a financial report issued by the **Bank for International Settlements** ("BIS") in Basel, Switzerland, disclose that in 2009 the BIS completed a 380-tonne gold swap with an unnamed commercial bank.[3] Unfortunately, the BIS has disclosed too little information for any of us outside the inner circle of central bankers to

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1 The footnote to the term "Official reserve assets" states "Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates...."

2 http://treasury.gov/press/releases/20109201520104590.htm.

3 http://online.wsj.com/article/SB10001424052748704178004575351421947803404.html?mg=com-wsj#printMode

truly understand what happened here. Consequently, there have been various interpretations by market participants of what this gold swap means.

7. There are indications that this gold swap was with **Portugal**.[4] First, Portugal reports owning 382 tonnes of gold, which is very close to the weight of metal swapped with the BIS. Second, as Portugal is one of the notorious over-indebted and spendthrift European "PIGS" countries (Portugal, Italy, Greece, and Spain), Portugal might be willing to complete unusual and even extraordinary transactions to give the appearance of improving its financial position, which could occur because it might still record ownership of the gold that had been swapped even though it no longer owed that gold completely and may not even have been in possession of it, while concurrently bolstering its cash position with the currency received as proceeds from the swap.

8. Before it was announced that the BIS swap was with a commercial bank, the mainstream interpretation was that a troubled sovereign borrower or perhaps even the European Central Bank itself needed liquidity and so used gold to borrow currency. But there was another potential reason for the swap even if it received little attention — the BIS may have been running out of physical metal for its interventions in the gold market and needed to acquire physical gold. Consequently, the BIS may have swapped currency for delivery of physical gold (or perhaps swapped for the right to have Portugal deliver when calls it had sold were exercised).

[4] Financial Times noted that "sovereign borrowers typically do not post collateral" on derivative trading, and reported that "Portugal has become the first eurozone country to agree to set aside cash — or other assets [N.B., possibly gold?] — against derivative transactions in a decision intended to reduce its funding costs." A. Sakoui & P. Wise, "Portugal takes Eurozone derivatives set-aside decision" Financial Times (Jul. 27, 2010). http://www.ft.com/cms/s/0/10ea1ac2-99ad-11df-a852-00144feab49a.html

9. If Portugal were able to repay the loan and put the 380 tonnes of gold back in its vault, BIS would be deprived of the use of the gold and would drive the gold price sky-high, given the dearth of sellers of physical metal at current prices because the preponderance of current holders of physical metal recognize that current prices fundamentally undervalue gold. Sky-high prices would blow up the gold cartel and its efforts to continue capping the gold price as it operates its staged retreat, letting gold rise every year but not too much so as not to draw attention to it and the resulting consequences of ever-depreciating fiat currencies.

10. Of course, all of the above discussion about Portugal is just reasoned speculation at this point. My explanation to decipher the BIS swap seems logical, but we may never know the true reason because central banks continue to operate in secret. However, this illustration helps explain what a "gold swap" is, how it operates and the deception that may result both from the lack of transparency in central bank financial reporting and from central banks' unwillingness to prepare their annual financial accounts in accordance with Generally Accepted Accounting Principles.

11. Articles in the financial press about the recent BIS gold swap disclose additional information about gold swaps, but all observers are left somewhat in the dark by secret central bank transactions.

a. For example, the article by Rowena Mason "Secret Gold Swap Has Spooked the Market," London Telegraph (July 11, 2010), reports on the analysis of one gold markets observer (Jim Sinclair), as follows:

> 'Gold swaps are usually undertaken by monetary authorities.... The gold is exchanged for foreign exchange deposits with an agreement that the transaction be unwound at a future time at an agreed price....' Historically swaps occur when entities like the IMF have a need for foreign exchange,

> but do not wish to sell the gold. In this case, gold is a leveraging device for needed currency to meet requirements.... The many reports that characterise the large IMF gold swap as a sale of gold into the markets do not understand the difference between a swap and a lease.[5]

b. The Wall Street Journal reported that "The Bank for International Settlements said it loaned billions of dollars backed by gold to commercial banks in recent months. Most of the loans — known as gold swaps — were conducted with European banks in exchange for foreign currencies, mainly U.S. dollars, according to data released last week in the BIS's annual report." C. Cui & L. Pleven, "Commercial Banks Used Gold Swaps," Wall Street Journal, (July 7, 2010).[6]

c. The Wall Street Journal described the BIS gold swap as follows: "exchanging their gold with the BIS in return for cash, agreeing to repurchase the gold at a later date." C. Cui and L. Pleven, "Central Banks Swap Tons of Gold to Raise Cash, Surprising Market," Wall Street Journal (July 7, 2010).[7]

12. The difference between gold swaps and gold loans is discussed in "The Macroeconomic Statistical Treatment of Reverse Transactions," a study for the International Monetary Fund, October 2001.[8]

13. I understand that, other than Congressional correspondence, articles, and documents on the Internet, and documents developed over the years by GATA and others including

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5 http://www.telegraph.co.uk/finance/markets/7884272/Secret-gold-swap-has-spooked-the-market.html

6 http://online.wsj.com/article/SB10001424052748704545004575353403943560776.html

7 http://online.wsj.com/article/SB10001424052748704178004575351421947803404.html

inquiries to persons in government about gold swaps and related issues, the FRB has identified very few documents related to gold swaps responsive to GATA's FOIA requests at issue in this case and no documents at all regarding U.S. gold swaps. Gold swaps are not unknown in international gold markets, and if the FRB truly had virtually no records over the last 20 years of any gold swaps occurring anywhere in the world, including gold swaps engaged in by the United States, it would be highly perplexing.

I declare, under penalty of perjury, that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed, this 26th day of September, 2010.

James Turk

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James Turk

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[8] http://www.imf.org/external/pubs/ft/bop/2001/01-16.pdf